

5-1938

Book Reviews

Henry B. Fernald

Charles H. Towns

Earl A. Saliers

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

Fernald, Henry B.; Towns, Charles H.; and Saliers, Earl A. (1938) "Book Reviews," *Journal of Accountancy*. Vol. 65: Iss. 5, Article 11.

Available at: <https://egrove.olemiss.edu/jofa/vol65/iss5/11>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Book Reviews

ACCOUNTING PRINCIPLES AND PROCEDURE; MUNICIPAL ACCOUNTING LECTURES, by CHARLES H. LANGER. *Walton Publishing Company*, Chicago, Ill. 120 pages. 1937. \$3.50.

This is a presentation of the subject of municipal accounting in the form of five lectures, with illustrative journal entries, ledger accounts, and statement forms, printed on an 8½" by 11" sheet. Much of real value is included in the 120 pages of this book.

Perhaps the most distinguishing feature of Mr. Langer's treatment of the subject of municipal accounting is the extent to which he expresses his own thoughts as to the manner in which municipal accounting should be handled, as compared with the accepted methods and principles of business accounting. This he does without making the common mistake of assuming that because certain methods, ledger accounts, and forms of statement have become accepted business practice, these ipso facto are to be applied bodily to municipal accounting. Any one dealing with the governmental-accounting problem must recognize two important distinctions which Mr. Langer brings out. He states, "A private business is organized to operate for profit, whereas government is primarily organized to render services."

As to the taxing power he notes, "A tax is a forced contribution of wealth to meet the financial needs of a government, which power a private organization lacks. . . . Private borrowing is limited by the earning power and resources of the organization, whereas public borrowing, in the absence of constitutional and statutory restrictions, is based on the resources of the whole community." He further notes that "The taxing power carries with it the corollary that money so raised must be used for a public purpose. But the restriction does not stop there, as statutes and ordinances may and usually do designate the particular activities for which the funds may be used and the amount to be spent for each purpose. No parallel to it is found in business except, perhaps, in the case of sinking funds." I think all of us will agree on these as basic factors which affect the entire problem and procedure of governmental accounting as distinguished from the accounting of business enterprises.

We may not be so sure of the importance of another distinction he makes when he points out that "the life of a municipal corporation is

perpetual, whereas all business corporations are not endowed with perpetual life." We should not forget that municipalities are simply creatures of the state and are subject to change, modification, and even extinction at its pleasure, and they may fall with the fall of the state which gave them being. We know that government debts are not the fixed obligations we wish they were, but they are subject to the will, or even caprice, of government.

Reference is made at various points in the book to the importance of observing statutory requirements, to the differences in the statutory requirements of various states and municipalities. Yet the student or reader of this book must continually be on his guard lest he be misled by the definiteness with which Mr. Langer sets forth conditions to be met and methods to be followed. We should not be unduly critical of this, because we recognize the difficulty which an author encounters when trying to present in condensed form as much as Mr. Langer is giving in these lectures, and may not wish continually to interrupt the trend of thought by repeated reference to possible alternative plans or methods which varying conditions might require. In some cases, at least, it is not difficult to agree that the situation might be better if the laws were changed so that methods recommended by Mr. Langer could be followed.

Not merely in municipal accounting, but even as to commercial practice, Mr. Langer does not hesitate to express his own views. Particularly he repeats what he has said elsewhere regarding what he considers the misuse of the term "reserves" in business accounting practice, and then develops a municipal accounting nomenclature on this basis. Personally, I do not feel so much disturbed as Mr. Langer with regard to a broad and perhaps somewhat varying use of the term "reserves." Since the word may be used in a broad sense in our laws or even in accounting statements prepared by those who are not certified public accountants, I doubt that a small group of professional accountants can limit its meaning. However, I think Mr. Langer has done well in developing other terms applicable to certain accounts which, according to his standard, should not be designated as "reserves."

The book includes the definitions of municipal accounting terminology of the National Committee on Municipal Accounting, supplemented by definitions, in italics, which Mr. Langer proposes and which he uses in his lectures.

The "Outline of Audit of Municipal Accounts" presents in a little over four pages a valuable and suggestive outline. It must be read subject to the caution already mentioned as to differences in applicable laws. It must also be read with considerable question as to the extent to which, under any particular conditions, it is the duty or responsibility of the auditor to do everything that the outline mentions the auditor

"must" or "should" do. This is a common fault of many outlines of audit procedure. To say that the auditor "must" or "should" "see that," "make certain that," or "ascertain that" certain facts are so is not misleading if it is understood to mean simply that he should make reasonable and appropriate review and tests—intended to disclose whether or not the accounts do properly reflect the essential facts regarding these matters. The danger is not so much that professional accountants will misunderstand the spirit in which such expressions are used as it is that others may be given an erroneous conception of the duty and responsibility of the auditor. However, this outline of audit is suggestive and thought-provoking. Any one engaged in auditing municipal accounts may find it well worth-while to check over his own actual or proposed procedure with the points that Mr. Langer outlines.

I believe the book is a valuable contribution to the literature on municipal accounting and a valuable addition to any municipal accounting library. I think it will be of real value to any one planning a system of municipal accounts or auditing such accounts. Even when it differs from the system and methods which under the law or authoritative rulings are required or in use in any particular municipality, much will be found in this book which will be suggestive and valuable.

HENRY B. FERNALD

HOW TO KEEP ACCOUNTS AND PREPARE STATEMENTS,
by EARL A. SALIERS. *The Ronald Press Company*, New York, N. Y.
481 pages. 1938. \$3.00.

Dr. Saliers appears to have taken the foregoing title as his text and to have stuck to it. This clearly-stated and practical-sounding title "fairly presents" in summary form the contents of the book.

A helpful variation from the title is found, however, in the order of presentation. In the title the word "accounts" appears first and the word "statements" comes later. In the text the reader is first given a brief view of the relation of accounting to business. Next the balance-sheet and profit-and-loss statement are taken up, with emphasis on content and purpose, and in the light of the balance-sheet equation stated as "Assets—Liabilities=Net Worth or Capital." After that the ledger accounts, subsidiary books, notes, drafts, invoices, and other papers and the uses of them are given.

Practical problems with solutions are included at the close of each chapter, with two or three exceptions.

Dr. Saliers' preface contains the following sentence: "The main purpose of this book is to help in overcoming these hurdles, real and mental, which confront those who attempt the mastery of accounts without the aid of an instructor." In addition to serving this purpose

the book will probably be found useful as an elementary textbook and as a source of elementary accounting problems for use in schools.

We may hope that in a subsequent edition of the book there will be included a chapter on some of the elementary problems in partnership accounting and also that in the next edition just a little more care will be used in checking or proofreading so as to avoid errors or inconsistencies like those in the solution of the problem on page 123, where no reason appears for credits to reserve for depreciation of only \$380 in the fourth and fifth years, and in the problem on page 287, where in the seventh line of the problem the reference should apparently be to "Bank B" instead of to "Bank A."

CHARLES H. TOWNS

THE SCIENCE OF VALUATION AND DEPRECIATION, by EDWIN B. KURTZ. *The Ronald Press Company*, New York, N. Y. 221 pages. 1937. \$4.50.

The laws of mortality were developed first in connection with the study of human lives. It has long been known that whereas the length of life of the individual cannot be forecast, the results where large numbers are involved can be forecast with sufficient certainty to enable actuaries to formulate the principles of life insurance.

In 1930 Professor Kurtz published *Life Expectancy of Physical Property*, in which he formulated the laws of life of physical property without regard to their commercial application. He did, however, anticipate the practical application of these laws, and in fulfilment he now publishes the volume here reviewed. This book is an elaboration of Bulletin 103, of the Iowa Engineering Experiment Station, entitled *Life Characteristics of Physical Property*, published in 1931. This bulletin summarized the results of investigations begun by Professor Kurtz in 1916. It is evident, therefore, that this study summarizes work which has extended over a period of twenty years and represents the results of painstaking effort.

The first 150 pages present the author's statement of laws and principles; the remainder of the book contains 65 life-characteristic charts, which are reprinted from Bulletin 103, referred to above.

Chapter I presents a discussion of life experience tables. Human-life experience tables are considered in some detail. Then the author states: "In like manner the results of life experience of industrial and utility equipment can be embodied in a life table. All that is necessary is to obtain accurate information on the actual lives of a relatively large number of units of each type and class of physical property, and there will be available the fundamental data for constructing physical-property life experience tables." Upon such data are based the 65 tables given in the appendix.

Chapter II discusses average life. "The average life of a unit of property is the average value of a substantial number of individual service lives of the same class of property"; hence to secure dependable data on average life, it is necessary to collect and tabulate the service lives of many units of the same class of property. Methods of interpreting such data are discussed.

Chapter III considers life expectancy and probable life. "Just as 'average life' is the anticipated future age at 0 of an average unit of property, so 'life expectancy' is the anticipated future life at any given age of an average unit. From this it follows that the life expectancy at age 0 becomes the average life." Methods of computing life expectancy are explained and illustrated.

Chapter IV explains remainder service life. The shortcomings of the conventional straight-line method are considered and scientific procedure explained.

Chapter V is entitled "Annual Renewals." Annual renewals consist of renewals of original units and of replacements. The following quotation makes clear the manner in which renewals occur: "When a group of new units is placed in service, simultaneously, a few go out of service almost immediately, some remain in service a few years longer, others stay in service up to and around the average life, while approximately half of the original give service beyond the expected life of the average unit; in fact, some may continue in service beyond 200 per cent. of average life." Methods of computing annual renewals are explained.

Chapter VI considers composite, remainder service life. "From its initial value of 100 per cent. it drops rapidly to below 50 per cent., after which it rises above and drops below 50 per cent. alternately until after many life cycles it gradually approaches the 50 per cent. value. At that time, the property has reached its ultimate condition, as well as a state of constant, normal, annual renewals." Calculating total, composite, per cent., remainder service life is explained, and there is explanation of the manner in which this value fluctuates during a property's early life.

Chapter VII covers replacement insurance.

Chapter VIII explains replacement-insurance reserves.

The book is a contribution to a basically important subject. Accountants, engineers, and appraisers should consult it in order to extend their knowledge of the laws which govern depreciation of all kinds of fixed assets. Good binding and typography and a satisfactory index are features worth noting.

EARL A. SALIERS